MERGERS & ACQUISITIONS

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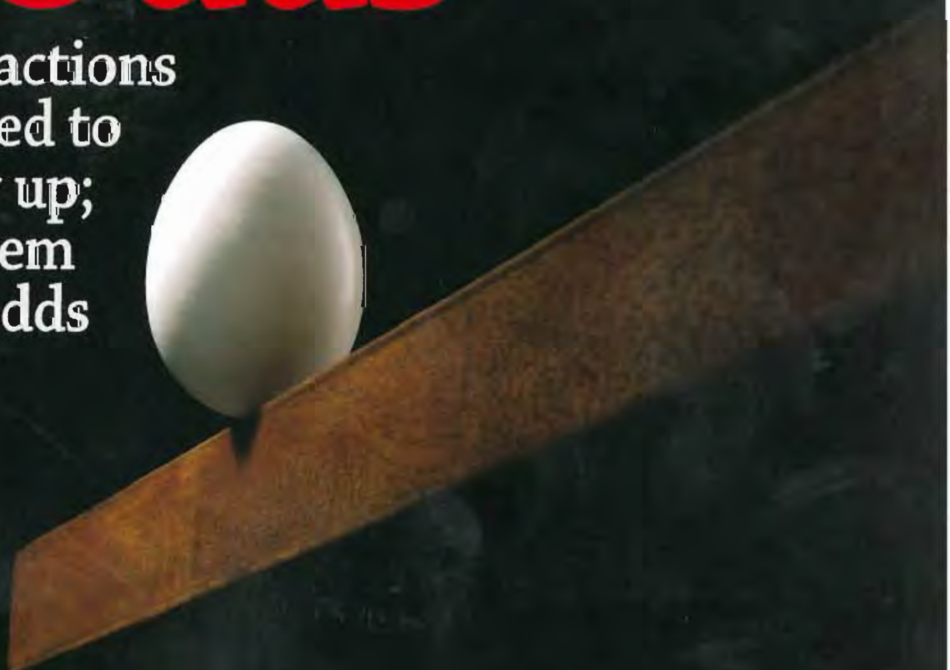
Against the Odds

Certain transactions are destined to blow up; some of them defy the odds



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Women of the Mid Market

The Direct Secondaries Alternative

PE's New PR Mess

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M&A in 2010

Readers divulge their expectations for the M&A market in 2010, identifying the best opportunities and whether or not the economy will endure a double-dip recession.

Paralysis continues in the middle market, with improvement only if bank capital pressures are eased. The real estate collapse resulted in the greatest number of bank failures since 1992.

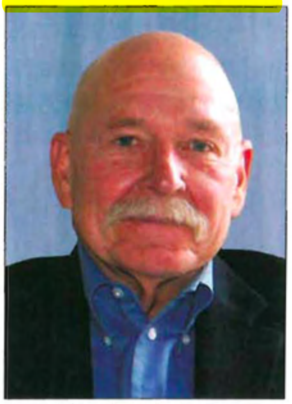

Deby Glidden

Residential values are creeping upwards, but capital erosion has hampered bankers' ability to deal with problems in commercial loan portfolios, which have maturities in 2010 through 2012. Lenders have addressed problems of the largest, SEC-monitored commercial customers, with many of the private, middle market ignored. The reality is "extend, amend, and pretend" due to the capital shortfall, with capital insufficient to write-down loans to move them out at discounts.

Bank workout groups are paralyzed by the volume of problem loans. These issues must be addressed soon. Fair value accounting will put pressure on lenders to mark-to-market loan portfolios, taking losses as capital allows. Banking consolidation will continue and the strongest can cherry-pick the best deals. Companies will continue to fail well into the economic rebound as they run out of liquidity. Cash will be king for all buyers, and distressed PE groups will have the advantage. Acquisitions with 50% equity from sponsors will continue into 2010, with leveraged recaps not occurring until later. Middle market activity will be strong in 2010 for those with distressed experience, as the lending paralysis unwinds.

— Deby Glidden, Managing Partner, Core Point Partners LLCz

Reports of the long term demise of M&A have been greatly exaggerated to paraphrase Mark Twain. Several significant drivers of both the buy side and the sales side will drive a recovering M&A market by at least the middle of 2010. Recent white papers and media articles have begun to recognize the coming tsunami of middle market M&A activity that will occur between about 2010 and 2030 as aging baby boomers, who own about two thirds of middle market businesses, begin to sell on average about 30,000 of these a year due to health and retirement issues.


Dennis J. Roberts

This recovery will also be driven by the shorter birth to acquisition lifecycles of technology age businesses. Rapid changes driven by new technology in traditional ways of doing business are a tremendous stimulant to M&A activity. This will be particularly evident in areas like healthcare technology, energy and business process management. The global economy's increasing cross border M&A activity combined with a huge amount of private equity capital seeking investment also will continue to drive a strong M&A recovery.

Put simply, pent up deals and good deals get done, economic downturns notwithstanding. We may be slightly off on the timing estimates here but not much and not on the fact of its occurrence.

— Dennis J. Roberts, Chairman and Senior Managing Member, The McLean Group, LLC

M&A will continue to be a buyer's market in 2010, especially for those buyers who are internally capitalized. Private equity will selectively participate, but will focus on those opportunities where the ROI more than offsets the higher required leverage. The best opportunities will be in industries that require relatively lower capital investments (e.g., services, technology), and especially industries that also include an environmental regulatory component (e.g., industries installing or servicing low NOx equipment upgrades or clean water treatment systems).


Chris Crawford

While we have weathered the recessionary storm, the landscape has changed and debt fi-